E.ON SE 2019 Annual-Results Press Conference

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Statement by:

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[Johannes Teyssen]

Good morning, everyone, and welcome to E.ON's annual-results press conference. I'm afraid that Marc Spieker and I won't quite be able to maintain last year's excitement level or to replicate its big news. Because just about a year ago over at the Essen Exhibition Center we and our colleagues from RWE announced what may be the most exciting transaction ever in Europe's energy industry.

What we did bring for you today are strong numbers for the 2018 financial year. Our adjusted EBIT and adjusted net income were both at the upper end of our forecast range. Marc Spieker will give you the details in a moment. I just want to emphasize one thing: putting together such a complex transaction and at the same time delivering an extraordinarily successful operating performance was anything but automatic. We were only able to accomplish this because we have outstanding employees. They gave everything they had to make both possible. And I'm very proud of them for that.

Where does the planned transaction with RWE stand? The most important news first: we're right on schedule. Filing the planned takeover with the European Commission in January marked an important milestone. In late February RWE received approval from Brussels and Bonn for the takeover of E.ON's and innogy's renewables businesses and for the planned acquisition of a stake in E.ON. The internal preparations for planned integration are making good progress as well.

You can readily imagine that preparing our filing for the European Commission involved a lot of hard work. The document we submitted has about 1,350 pages and 5,000 attachments, among them entire databases. Reviewing all that will of course take time, particularly since it involves numerous product markets in different countries. That, by the way, is the main difference between our filing and RWE's: theirs was predominantly restricted to the European generation market. As anticipated, at the start of this month the European Commission opened an in-depth investigation. This too is fully in line with our plans. We're confident that we'll obtain the necessary approvals in the second half of the year.

In recent weeks some of you have reported criticism of E.ON's planned takeover of innogy. This criticism has come predominantly from a handful of competitors. Although it's understandable that these competitors want to protect their business interests and hope to achieve advantages for themselves, their objections don't withstand scrutiny.

Competition isn't endangered in any way. Let's start with the network business. Networks are natural monopolies subject to government regulation. There's no competition between networks. It's that way on purpose, and that also makes economic sense. The German Federal Network Agency monitors whether we're a reliable and efficient network operator. And the efficiency improvements we achieve of course benefit our network customers as well.

As for customer solutions, check for yourself. Enter a postal code—yours or any other—in one of the price comparison websites. You'll find a lot of providers with a wide variety offerings. If you enter a postal code here in Essen, the first ten results will include providers from Oldenburg, Karlsruhe, Munich, and Schwerin. Even from Switzerland. Customers are free to choose. Nothing about that will change.

Germany has about 1,200 electricity providers. True, not all of them offer their products nationwide. But there are 100 or more in every postal code. In most areas, this includes our two brands, E.ON and E-wie-einfach ("E as in easy"). The integration of innogy would add one or two more of our brands per region. But that means that customers would generally be able to choose from more than 90 providers that aren't E.ON or innogy. As you can see, competition in Germany's power market is and will remain keen. Another indicator of this is that after the transaction E.ON's share of Germany's highly competitive retail electricity market will only be 20 percent. Do customers choose us because we "dominate the market"? No, they do so because of our attractive offerings and friendly, reliable customer service. And because they trust us.

Incidentally, I think it's noteworthy that there's hardly been any criticism from residential or industrial customers, consumer protection groups, or competition experts. The criticism has come primarily from competitors. I'd like to quote the former chairman of the German Monopoly Commission, Justus Haucap, who is absolutely right when he says that the purpose of antitrust law is to protect customers, not competitors. If one company is better than another, that's not bad for customers. On the contrary, a fundamental reason for competition is to increase efficiency, which benefits customers.

Getting a little bit better all the time is precisely our approach. Teams made up of young as well as experienced colleagues from more than 100 countries work every day to make our products and services even better—for our customers. Because our customers—municipalities, companies, and households—are the ones who will decide how successful we'll be in the new energy world. They determine which energy products and services are important and to whom they entrust their energy project, the management of their energy network, or the energy for their home. Their viewpoint alone guides us. We're determined to provide our customers with the best there is in the new digital energy world.

This, indeed, is the only yardstick for our current deliberations regarding the future E.ON's organizational setup and processes. In the interim we've made a series of decisions about these matters. For example, our company will continue to be called E.ON, have its headquarters in Essen, and have a very customer-proximate setup. Our objective is a lean setup and efficient processes, and we're well on the way to getting there. We therefore today reaffirm that we'll leverage all of the anticipated €600 to €800 million in synergies from 2022 onward.

These preparations will help us complete the transaction more swiftly after the approval from Brussels. The working relationship with innogy is constructive and mutually trusting. Of course, there have occasionally been differences of opinion. But so far, we've always been able to resolve these issues amicably.

In everything we do, we keep the interests of both companies' employees firmly in view. E.ON has a good and proven tradition of making substantial changes in consultation with employee representatives and in a socially acceptable manner. We want to continue this tradition. For this reason, in May innogy, E.ON, and RWE, in consultation with their Group Works Councils, reached an Agreement in Principle on Collective Bargaining for Germany with the ver.di and IGBCE union. That was a good start, and I'm confident that we and employee representatives will be able to reach a mutually acceptable agreement on the other necessary steps. The talks for this have been constructive.

We want to make innogy employees' start at E.ON as easy as possible. Consequently, immediately after the successful takeover of innogy, we intend to increase the size of the E.ON Supervisory Board by six members to a total of twenty until the board's next election, which is in 2023. The purpose of the expansion is to facilitate innogy's rapid and fair integration into E.ON. The three additional employee representatives will all come from innogy.

This is also to ensure that the approximately 40,000 innogy employees are represented on their new company's Supervisory Board as quickly as possible and thus during the integration process. We want the additional shareholder representatives to be individuals who have special knowledge about innogy.

Going forward, the new E.ON will be Europe's first company to focus exclusively on smart grids and innovative customer solutions. Two markets of the future with a lot of potential. More and more customers want to embrace the energy transition. We provide them with the solutions they need: generating units, products, and services.

Through expansions and digitalization, we're already creating smart distribution grids that actively promote the convergence of power, heat, and mobility. We're thus paving the way for today's trend toward lower-carbon power generation to become the true energy transformation of tomorrow. Our ambition is to do the best job possible of making the great opportunities in the new energy world available to our customers. The knowledge and experience of innogy colleagues in areas like e-mobility and broadband solutions will help us get there even faster. We want the new company to be more than the sum of its parts. We know that our success will depend on our willingness to question the status quo, to learn new things, and to actively shape change. We share this conviction with our colleagues at innogy. I sense that innogy too is open and willing to try something new. I'm firmly convinced that this openness and mutual respect are the best prerequisites for making the new E.ON an outstanding company that has a performance culture and that puts customers at the center of everything it does.

With that I'll hand things over to Marc Spieker, who will present you our results for the 2018 financial year.

[Marc Spieker]

Good morning, everyone. I too would like to welcome you here. Johannes Teyssen said that we're looking back on a good 2018 financial year. I'd like to add: and we're looking ahead with optimism. Before I get to the details, the most important things first:

- E.ON is entering the new financial year with strong earnings. Our business is going well and delivers reliably. We put in an outstanding operating and financial performance for the third year in a row.

- As anticipated, our 2018 adjusted EBIT of €3 billion was only slightly (€85 million) below the prior-year figure of €3.1 billion and thus at the upper end of our forecast range.

- Due to a reduction in interest expenses and taxes, adjusted net income of €1.5 billion was slightly (about €100 million) above the prior-year figure of €1.4 billion and thus likewise at the upper end of our forecast range.

- We want to continue this success story. For 2019 we anticipate adjusted EBIT of €2.9 to €3.1 billion and adjusted net income of €1.4 to €1.6 billion.

- We systematically reduced our economic net debt in substantial increments: from €26.3 billion in 2016 we reduced it to €19.2 billion at year-end 2017 and just €16.6 billion at year-end 2018. This enables us to enter the planned innogy takeover with a strong and healthy balance sheet.

- We want our positive dividend performance to continue as well. Following 30 cents per share for 2017 and the 43 cents per share for 2018 that we'll propose to the Annual Shareholders Meeting in May, we intend to pay shareholders a fixed dividend of 46 cents per share for the 2019 financial year.

- The third dividend increase in a row reflects E.ON's solid business performance. Through 2020 we expect our current business portfolio to generate annual EBIT growth of 3 to 4 percent over and our earnings per share to rise by an average of 5 to 10 percent.

- Our earnings in the 2018 financial year were driven predominantly by improvements in our operating business. We owe our thanks for this to our employees, who fight for every customer and every order in a keenly competitive marketplace.

I'll turn now to the details of our business performance.

First a brief word about our sales, primarily to put the decline into context. Our sales of €30.3 billion were about 20 percent below the prior-year level of just under €38 billion. The primary reason for the decline was the adoption of a new International Financial Reporting Standard. Renewables levies in Germany and other similar compensation are no longer reported in full but rather are netted against the corresponding costs of materials in the income statement.

This reduces both sales and costs of materials but doesn’t affect earnings. Adjusted for this accounting effect, our sales were actually slightly higher.

As forecast, Energy Networks’ adjusted EBIT of €1.8 billion was €190 million, or 9 percent, below the prior-year figure of €2 billion. The principal reasons were the sale of Hamburg Netz, the beginning of the third regulatory period for gas in Germany, and the non-recurrence of a positive regulatory one-off item recorded in the prior year. A reduction in earnings at the East-Central Europe/Turkey unit resulting from lower equity earnings on our stake in Enerjisa Enerji in Turkey was another adverse factor. These items were partially offset by an improved gross margin in the power business in Sweden.

In the regulated networks business, efficiency plays a special role. And our networks are efficiency pacesetters. The German Federal Network Agency’s most recent benchmarking assigned all of our regional network companies a particularly high efficiency factor of 100 percent. As in previous years, this ranks them among the most efficient of Germany’s nearly 900 electricity network operators. Two E.ON network operators were awarded an additional efficiency bonus by which they can increase their returns in the next regulation period.

Adjusted EBIT at Customer Solutions declined by €66 million, or 14 percent, from €479 million to €413 million. The principal causes were a weather-driven reduction in power sales volume, higher costs in the United Kingdom, and the unavailability of a cogeneration plant that we operate for a customer. Adjusted EBIT in Germany was significantly higher, primarily because of the anticipated normalization of gross margin in the power and gas sales business.

E.ON maintained or enlarged the size of its customer base in nearly all markets, despite unrelentingly fierce competition. Over the course of the year, we even added about 100,000 customers on a net basis in Germany. That was no coincidence. We measure customer satisfaction on a regular basis and see that our customers increasingly appreciate our services. We work hard at this every day and want to get better and better.

Renewables’ adjusted EBIT rose by €67 million, or 15 percent, from €454 million to €521 million. The principal factor was an increase in owned generation. This was because in 2018 some wind farms in the United States were, for the first time, operational for the entire year and because a new offshore wind farm came online in the United Kingdom.

It’s worth mentioning that E.ON’s renewables business once again delivered very strong earnings. First, because 2018 wasn’t an easy year for wind power since the wind yield was relatively poor. Second, because we intend to transfer this business to RWE as part of the planned asset swap. This outstanding earnings performance demonstrates these employees’ undiminished motivation. Johannes Teyssen already emphasized our great performance culture, which is something we can be proud of and that you can be certain will characterize the new E.ON as well.

Our investments—both the amount and the target areas—also demonstrate that E.ON is working systematically to become the leading customer company in the new energy world. Our 2018 investments of €3.5 billion surpassed the prior-year figure of €3.3 billion by 6 percent. Energy Networks’ investments in particular were substantially above the prior-year level. For example, we invested €802 million in Germany alone to expand, digitalize, and renew our power grids, roughly €100 million than in the prior year. This underscores our networks’ special significance: they’re the backbone of the energy transformation. They connect a growing number of distributed generating units and are thus what makes a modern, climate-friendly energy world possible.

Increased investment will also create future growth at Customer Solutions. Modernization and expansion at our heating business along with the installation and operation of highly efficient and thus climate-friendly distributed generating units at customers’ facilities will enlarge E.ON’s future earnings base. We plan for our investments in 2019 to be at a similarly high level.

Our high proportion of regulated businesses—which the takeover will increase—and our clear commitment to a consistent dividend policy make E.ON a highly attractive investment, particularly for long-term, sustainability-oriented investors. Their percentage in E.ON’s shareholder base is rising continually. In addition, our stock price outperformed the DAX last year and has risen significantly, particularly in recent weeks. The capital market trusts our strategy. And we’ll do everything we can to keep our ambitious promises to our investors

In summary:

- 2018 was a very strong year. Our operating business is going very well, E.ON is delivering reliably.

- We also have ambitious plans for 2019 and the years beyond. We want to increase our earnings and pay an attractive dividend that increases going forward.

- We're moving forward systematically with the planned takeover of innogy, which will make the new E.ON an even more competitive company. One devoted entirely to serving its customers. And one whose smart grids and innovative customer solutions will make it a leading company of the European energy transition.

That concludes my commentary on our annual results. We'd now be happy to take your questions.